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INTRODUCTION

In October 1987, the Rules Committee approved a request from Councilmembers Hammer and Alvarado that the City Auditor perform a study and produce the following information for City Council consideration:

1. The extent to which the City is currently contracting for services.
2. The extent to which other cities are contracting for services.

The shifting of the delivery of services from government to non-government organizations is known as "privatization." Non-governmental organizations can provide services through various arrangements, such as:

1. Private ownership (i.e., private water system)
2. Franchises
3. Grants and subsidies
4. Volunteers
5. Contracting

While the information in this report pertains to City contracting only, it should be noted that the City of San Jose does use the other privatization arrangements cited above.

SCOPE AND METHODOLOGY

Initially, the scope of our review was limited to surveying City departments concerning contracted services and compiling the results. However, based upon our initial work and discussions with the Administration, we concluded that we could improve the accuracy and reliability of our study results if we reviewed and compiled contracting data directly. Further, because the City contracts for many services in addition to those in City Council-approved contracts, we included all of the following data sources in our study scope:

1. The City Clerk's logs of all City Council-approved contracts (normally those valued at over \$20,000) and all City Council Appointee-approved contracts (normally less than \$20,000 and reported to the City Council on a quarterly basis).
2. The Redevelopment Agency contract administrator's listing of all Redevelopment Agency contracts.
3. A special Department of General Services listing of purchase orders for services.
4. A Department of Public Works log of Director-approved minor construction contracts.

Based upon on our review of the above sources, we concluded that each source was complete and accurate. For the purpose of our study, we extracted from the above sources those services contracts that were executed during 1986-87. It should be noted that not all those contracts approved in 1986-87 will be reflected in our study results. Conversely, some contracts

approved before 1986-87 will be reflected in our study results. This occurred because of the timing difference between contract approval and execution. For example, the City Clerk's log of City Council-approved contracts is organized by contract execution date. If there are contractor delays in meeting insurance or other contract preconditions, several months can elapse between the time the City Council approves a contract and the time the contract is executed.

We included in our study those contracts or purchase orders the City executed or issued for traditional municipal employee-type services. We excluded from our study the following kinds of contracted services:

- Contracts with consultants or experts where the required services were so specific or for such a limited time that it would be impractical for City employees to provide the service.
- Contracts with persons who are required to be independent of the City, such as the annual audit of the City's financial statements.
- Contracts with persons who have contractual employment arrangements with the City rather than Civil Service appointments.

The reader is cautioned that the City has arrangements for services that are not included in our review. Notable examples of excluded items are:

- Gas, electric and telephone utilities which are completely privately owned;
- A water supply system which is partially privately owned;

- A wastewater treatment system which operates under a joint powers agreement with another municipality;
- Residential garbage collection which is franchised to a private company; and
- The operation of a City golf course which is contracted to a private operator and police/fire dispatch which is contracted to Santa Clara County. These multi-year agreements are not on our lists of contracted services because the contracts were not renewed or replaced during our 1986-87 review period.

Further, it should be noted that a certain degree of subjectivity and judgment was exercised in defining contract scopes of services and activity categories. However, in our opinion, the information presented in this report is appropriate and adequate for the purpose of our review. We have reviewed with the Administration the lists of San Jose contracted services shown in this report.

Finally, in order to determine the extent to which other cities are contracting for services, we performed a literature search.

STUDY RESULTS

THE CITY OF SAN JOSE CONTRACTED FOR OR PURCHASED \$183 MILLION WORTH OF SERVICES IN 1986-87

Our review revealed that during 1986-87, the City of San Jose executed 539 service contracts worth \$179,337,151 and issued 788 purchase orders for services worth \$4,306,420. In total, the City contracted for or purchased \$183,643,571 worth of services in 1986-87.

TABLE I summarizes City of San Jose contracted and purchased services in 1986-87 by type of service and dollar amount.

TABLE I

PAGE 1 OF 3

SUMMARY OF CITY OF SAN JOSE CONTRACTED AND PURCHASED SERVICES IN FY 1986-87
BY TYPE OF SERVICE AND DOLLAR AMOUNT OF CONTRACTS EXECUTED OR PURCHASE ORDERS ISSUED

TYPE OF SERVICE	COUNCIL-APPROVED CONTRACTS	APPOINTEE-APPROVED CONTRACTS	REDEVELOPMENT BOARD-APPROVED	REDEVELOPMENT DIRECTOR-APPROVED	PURCHASE ORDERS OVER \$20,000	PURCHASE ORDERS \$20,000 AND UNDER	TOTAL
Administrative Services	\$252,000.00	\$11,000.00					\$263,000.00
Airport Improvements	\$12,556,711.58						\$12,556,711.58
Answer Telephone						\$1,300.00	\$1,300.00
Appraisal Services	\$196,000.00	\$232,171.86		\$279,000.00		\$3,000.00	\$710,171.86
Archaeological Services		\$60,000.00	\$126,600.00	\$18,815.00			\$205,415.00
Architectural Services	\$760,797.00	\$117,875.00	\$629,903.00	\$18,000.00			\$1,526,575.00
Binding						\$2,500.00	\$2,500.00
Book Prisoners						\$4,000.00	\$4,000.00
Clean Cars						\$31,700.00	\$31,700.00
Computer Programming	\$932,839.54	\$53,500.00	\$48,000.00		\$30,000.00	\$29,537.00	\$1,093,876.54
Construction	\$10,122,917.75						\$10,122,917.75
Construction Management	\$729,200.00	\$25,994.00	\$2,355,000.00	\$20,000.00		\$3,312.00	\$3,133,506.00
Convention Center			\$85,411,494.00	\$22,650.00			\$85,434,144.00
Copying						\$850.00	\$850.00
Crane Operation						\$18,083.00	\$18,083.00
Custodial Services	\$332,277.60	\$6,000.00			\$90,000.00	\$61,472.98	\$489,750.58
Data Analysis				\$14,500.00			\$14,500.00
Dump	\$50,000.00					\$250.00	\$50,250.00
Electrical Services	\$1,998,325.00	\$4,400.00					\$2,002,725.00
Engineering Services	\$16,984,542.25	\$426,425.00	\$142,000.00	\$23,700.00			\$17,576,667.25
Environmental Services		\$87,480.00	\$487,000.00	\$108,300.00	\$35,000.00	\$102,565.00	\$820,345.00
Fingerprinting						\$6,000.00	\$6,000.00
Fiscal Services			\$30,428.15	\$20,000.00			\$50,428.15
Flue Cleaning						\$3,000.00	\$3,000.00
Garbage Collection					\$55,000.00	\$39,350.00	\$94,350.00
Geotechnical Engineering	\$554,975.00	\$55,450.00					\$610,425.00
Golf Course Air Condition	\$10,634.00						\$10,634.00
Graphics	\$469,467.50	\$38,165.00		\$850.00			\$508,482.50
Hauling					\$77,000.00		\$77,000.00
Landscaping Services	\$4,428,056.00	\$85,549.00	\$401,425.00	\$17,000.00	\$88,315.00	\$42,431.42	\$5,062,776.42
Legal Services	\$161,000.00	\$155,000.00		\$20,000.00			\$336,000.00
Library Services	\$30,900.00					\$10,000.00	\$40,900.00
Mailing Services						\$23,551.60	\$23,551.60
Management Study	\$40,000.00						\$40,000.00
Materials Testing	\$182,666.00	\$4,521.00				\$39,150.00	\$226,337.00
Medical Services	\$40,000.00						\$40,000.00
Moving	\$36,900.00						\$36,900.00
Mow Vegetation						\$4,800.00	\$4,800.00

TABLE I

PAGE 2 OF 3

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BY TYPE OF SERVICE AND DOLLAR AMOUNT OF CONTRACTS EXECUTED OR PURCHASE ORDERS ISSUED

TYPE OF SERVICE	COUNCIL-APPROVED CONTRACTS	APPOINTEE-APPROVED CONTRACTS	REDEVELOPMENT BOARD-APPROVED	REDEVELOPMENT DIRECTOR-APPROVED	PURCHASE ORDERS OVER \$20,000	PURCHASE ORDERS \$20,000 AND UNDER	TOTAL
Neighborhood Beautification	\$10,712.40		\$145,999.66				\$156,712.06
Neighborhood Revitalization	\$85,000.00						\$85,000.00
Paint Striping						\$4,900.00	\$4,900.00
Painting Services	\$279,914.00	\$13,499.00					\$293,413.00
Park Improvements	\$3,846,992.00						\$3,846,992.00
Parking Lot Operation	Contingent						Contingent
Paving Services	\$4,766,230.91	\$12,427.00				\$31,550.00	\$4,810,207.91
Pest Control					\$50,000.00	\$32,429.32	\$82,429.32
Photography	\$100,000.00	\$85,084.00				\$24,400.00	\$209,484.00
Plan Checking To Code		\$70,000.00					\$70,000.00
Planning Services	\$45,000.00						\$45,000.00
Police Services	\$62,900.00						\$62,900.00
Polygraph					\$35,500.00		\$35,500.00
Printing					\$66,773.43	\$445,617.63	\$512,391.06
Process Service						\$8,000.00	\$8,000.00
Promotional Services	\$525,436.76	\$61,490.00	\$90,000.00	\$5,000.00			\$681,926.76
Property Management Services				\$26,500.00			\$26,500.00
Refuse Disposal	\$500,069.02				\$101,200.00	\$55,620.70	\$656,889.72
Relamping		\$2,490.00				\$9,900.00	\$12,390.00
Remodeling	\$594,771.00						\$594,771.00
Repair and Installation	\$1,765,861.50	\$128,896.09	\$88,000.00	\$845.00	\$559,067.68	\$955,245.85	\$3,497,916.12
Research Services	\$282,590.00	\$5,000.00					\$287,590.00
Roadways and Bridges	\$10,192,578.80						\$10,192,578.80
Roofing Services	\$163,411.00	\$27,490.00				\$10,000.00	\$200,901.00
Sanitary Sewer Cleaning	\$85,494.75					\$10,000.00	\$95,494.75
Security Services			\$160,000.00		\$117,400.00	\$75,750.00	\$353,150.00
Sewer System Improvements	\$8,182,209.50						\$8,182,209.50
Social Services	\$266,795.00		\$88,500.00			\$1,026.00	\$356,321.00
Sports Officiating						\$19,000.00	\$19,000.00
Street Sweeping	\$90,450.00				\$110,200.00	\$9,160.00	\$209,810.00
Subpoena Service					\$45,000.00	\$3,500.00	\$48,500.00
Surveying Services		\$19,536.00					\$19,536.00
Temporary Workers		\$160,146.00			\$180,000.00	\$242,693.78	\$582,839.78
Towing					\$30,000.00	\$2,000.00	\$32,000.00
Tractor Operation						\$5,841.13	\$5,841.13
Training	\$39,500.00	\$12,600.00					\$52,100.00
Transportation					\$123,616.00	\$124,000.00	\$247,616.00
Tree Work	\$293,351.88			\$19,750.00		\$3,750.00	\$316,851.88

TABLE I

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SUMMARY OF CITY OF SAN JOSE CONTRACTED AND PURCHASED SERVICES IN FY 1986-87
BY TYPE OF SERVICE AND DOLLAR AMOUNT OF CONTRACTS EXECUTED OR PURCHASE ORDERS ISSUED

TYPE OF SERVICE	COUNCIL-APPROVED CONTRACTS	APPOINTEE-APPROVED CONTRACTS	REDEVELOPMENT BOARD-APPROVED	REDEVELOPMENT DIRECTOR-APPROVED	PURCHASE ORDERS OVER \$20,000	PURCHASE ORDERS \$20,000 AND UNDER	TOTAL
Typesetting						\$560.60	\$560.60
Water System	\$984,574.65	\$19,000.00				\$3,800.00	\$1,007,374.65
Water Treatment						\$5,000.00	\$5,000.00
Welding						\$1,750.00	\$1,750.00
WPCP Improvements	\$2,328,650.00						\$2,328,650.00
Zoo	\$174,000.00						\$174,000.00
TOTALS	\$86,536,702.39	\$1,981,188.95	\$90,204,349.81	\$614,910.00	\$1,794,072.11	\$2,512,348.01	\$183,643,571.27

TABLE II summarizes City of San Jose contracted and purchased services in 1986-87 by type of service and number of contracts executed or purchase orders issued.

TABLE II

PAGE 1 OF 3

SUMMARY OF CITY OF SAN JOSE CONTRACTED AND PURCHASED SERVICES FY 1986-87
BY TYPE OF SERVICE AND NUMBER OF CONTRACTS EXECUTED OR PURCHASE ORDERS ISSUED

TYPE OF SERVICE	COUNCIL-APPROVED CONTRACTS	APPOINTEE-APPROVED CONTRACTS	REDEVELOPMENT BOARD-APPROVED	REDEVELOPMENT DIRECTOR-APPROVED	PURCHASE ORDERS OVER \$20,000	PURCHASE ORDERS \$20,000 AND UNDER	TOTAL
Administrative Services	3	1					4
Airport Improvements	7						7
Answer Telephone						1	1
Appraisal Services	4	30		16		1	51
Archaeological Services		3	2	2			7
Architectural Services	11	8	5	2			26
Binding						1	1
Book Prisoners						1	1
Clean Cars						7	7
Computer Programming	8	5	1		1	7	22
Construction	9						9
Construction Management	3	2	1	1		2	9
Convention Center			1	2			3
Copying						1	1
Crane Operation						1	1
Custodial Services	1	2			1	13	17
Data Analysis				1			1
Dump	1					1	2
Electrical Services	13	2					15
Engineering Services	23	31	3	2			59
Environmental Services		8	3	8	1	17	37
Fingerprinting						1	1
Fiscal Services			1	1			2
Flue Cleaning						1	1
Garbage Collection					1	4	5
Geotechnical Engineering	4	6					10
Golf Course Air Condition	1						1
Graphics	1	3		1			5
Hauling					1		1
Landscaping Services	23	7	3	1	2	13	49
Legal Services	2	9		1			12
Library Services	1					1	2
Mailing Services						6	6
Management Study	1						1
Materials Testing	2	1				4	7
Medical Services	1						1
Moving	1						1
Mow Vegetation						1	1

TABLE II

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SUMMARY OF CITY OF SAN JOSE CONTRACTED AND PURCHASED SERVICES FY 1986-87
BY TYPE OF SERVICE AND NUMBER OF CONTRACTS EXECUTED OR PURCHASE ORDERS ISSUED

TYPE OF SERVICE	COUNCIL-APPROVED CONTRACTS	APPOINTEE-APPROVED CONTRACTS	REDEVELOPMENT BOARD-APPROVED	REDEVELOPMENT DIRECTOR-APPROVED	PURCHASE ORDERS OVER \$20,000	PURCHASE ORDERS \$20,000 AND UNDER	TOTAL
Neighborhood Beautification	6		3				9
Neighborhood Revitalization	1						1
Paint Striping						1	1
Painting Services	3	3					6
Park Improvements	19						19
Parking Lot Operation	1						1
Paving Services	8	4				5	17
Pest Control					1	9	10
Photography	1	13				19	33
Plan Checking to Code		4					4
Planning Services	1						1
Police Services	1						1
Polygraph					1		1
Printing					2	309	311
Process Service						1	1
Promotional Services	6	7	2	1			16
Property Management Services				2			2
Refuse Disposal	3				3	19	25
Relamping		1				2	3
Remodeling	3						3
Repair and Installation	26	36	2	1	13	189	267
Research Services	7	1					8
Roadways and Bridges	11						11
Roofing Services	3	2				1	6
Sanitary Sewer Cleaning	2					1	3
Security Services			1		4	8	13
Sewer System Improvements	9						9
Social Services	7		1			2	10
Sports Officiating						1	1
Street Sweeping	1				1	1	3
Subpoena Service					1	1	2
Surveying Services		1					1
Temporary Workers		15			1	75	91
Towing					1	1	2
Tractor Operation						1	1
Training	1	1					2
Transportation					1	13	14
Tree Work	5			1		3	9

TABLE II

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SUMMARY OF CITY OF SAN JOSE CONTRACTED AND PURCHASED SERVICES FY 1986-87
BY TYPE OF SERVICE AND NUMBER OF CONTRACTS EXECUTED OR PURCHASE ORDERS ISSUED

TYPE OF SERVICE	COUNCIL-APPROVED CONTRACTS	APPOINTEE-APPROVED CONTRACTS	REDEVELOPMENT BOARD-APPROVED	REDEVELOPMENT DIRECTOR-APPROVED	PURCHASE ORDERS OVER \$20,000	PURCHASE ORDERS \$20,000 AND UNDER	TOTAL
Typesetting						2	2
Water System	2	1				1	4
Water Treatment						1	1
Welding						2	2
WPCP Improvements	12						12
Zoo	1						1
TOTALS	260	207	29	43	36	752	1327

TABLE III is a summary of City Council-approved contracts that were executed in 1986-87 by requesting department or agency.

TABLE III
SUMMARY BY REQUESTING DEPARTMENT OR AGENCY
OF CITY COUNCIL-APPROVED
CONTRACTS THAT WERE EXECUTED
IN 1986-87

<u>Requesting Department/Agency</u>	<u>Contract Amounts</u>
Airport	\$ 5,742,501.00
Attorney	161,000.00
Convention & Cultural	6,500.00
Finance	206,000.00
Fire	303,619.02
General Services	818,408.52
Information Systems	55,500.00
Library	30,900.00
Neighborhood Maintenance	929,050.38
Neighborhood Preservation	504,466.00
Office of Environmental Management	176,302.40
Personnel	90,000.00
Planning	228,000.00
Police	87,900.00
Parks & Recreation	437,195.00
Public Works	62,571,417.08
Redevelopment Agency	145,999.99
Traffic Operations	76,371.50
Water Pollution Control Plant	<u>13,965,571.50</u>
TOTALS	<u>\$86,536,702.39</u>

During the course of our review, we extracted and collated extensive data regarding City contracting for services in 1986-87. This information is presented in the ATTACHMENTS to this report as follows:

ATTACHMENT A - Details the \$86,536,702.39 in City Council-approved services contracts by contractor, contract amount, type of service and requesting department or agency.

ATTACHMENT B - Details the \$1,981,188.95 in Council Appointee-approved services contracts by Council Appointee, contractor, contract amount, and requesting department.

ATTACHMENT C - Details the \$90,204,349.81 in Redevelopment Agency Board-approved services contracts by contractor, type of service and contract amount.

ATTACHMENT D - Details the \$614,910.00 in Redevelopment Agency Executive Director-approved services contracts by contractor, contract amount and type of service.

ATTACHMENT E - Details the \$1,794,072.11 in services purchase orders over \$20,000 by vendor, type of service and purchase order amount.

ATTACHMENT F - Details the \$2,512,348.01 in services purchase orders \$20,000 and under by vendor, type of service and purchase order amount.

STUDY RESULTS

MUNICIPAL CONTRACTING FOR SERVICES IS WIDESPREAD AND GROWING

Our review of some of the literature concerned with privatization of government services revealed a repetitive theme that virtually anything government does the private sector can also do.

In his book Cutting Back on City Hall, Robert W. Poole, Jr., states:

"Virtually every category of public service has been or is being provided by a private organization somewhere in the United States: police, fire, paramedics, roads, water, parks, recreation, garbage - even tax assessment."

The above contention is supported in the April 1988 issue of the Journal of Accountancy which states in part:

"...On the state and local level, privatization has been moving forward at an accelerated pace, with the average city now contracting out 27% of its municipal services in whole or in part to private companies, and that number is growing..."

Examples of local government contracted services include the following which we excerpted from A Review of Private Approaches for Delivery of Public Services by Harry P. Hatry.

- Fire Protection - Scottsdale, Arizona

Scottsdale and other cities in Arizona are well known for having contracted out to the Rural/Metro Fire Department, Inc. The company has served Scottsdale for more than twenty-five years. City employees are trained to supplement the contractor's employees.

- Vehicle Repairs - Gainesville, Florida

Gainesville began contracting all its vehicle repair work in 1980. Gainesville estimated cost savings of 20 percent, and reported lower vehicle downtime and fewer repeat repairs.*

- Wastewater Treatment Plant - Poughkeepsie, New York

Poughkeepsie contracted for operation of its wastewater treatment plant beginning in 1979. Standards for various effluent characteristics, such as BOD and suspended solids, were included in the contract.

- Parks Maintenance - Seattle, Washington

Seattle, since 1974, has contracted with neighborhood associations and other established community groups for partial maintenance of vest-pocket parks. At any one time, the Department of Parks and Recreation contracts with about seven groups maintaining fifteen parks. The groups themselves negotiate with neighborhood residents for performance of specific tasks. The Parks Department is careful to select community groups already set up to supervise and handle paperwork.

- Data Processing - San Diego, California

San Diego, in 1979, formed a private non-profit corporation to manage its data processing. The board is from the private sector but appointed by the City Council. It possesses the normal authority of a business enterprise.

* It should be noted that the City of Gainesville, Florida recently resumed control of its vehicle repair work because of cost and quality of service issues.

- Various Services - La Mirada, California

La Mirada, in the early 1980's, had a population of about 41,000, fewer than 60 employees, but more than 60 contracts for the provision of services. Some are with the County, such as police and fire, but most are with private for-profit firms. The contracts cover such services as data processing, traffic signal maintenance, park maintenance, refuse pick-up, recreation, and a variety of human services.

- Various Services - Phoenix, Arizona

Phoenix requires city agencies to bid for selected city contracts along with private contractors. Services have included custodial services, trash and garbage collection, and street landscaping. In some cases, contracts are city-wide; in others, they are for services in specific locations in the city. The city agency may win the contract in some locations and the private contractor in others. During a period of years around the early 1980's, city forces submitted the lowest bids for 10 of 22 proposed contracts.

During our review of literature on privatization, we identified numerous examples of contracted municipal services. A partial list of those examples follows:

Administrative Services (utility billing, payroll, microfilming)
Alcohol Outpatient Program
Appraisals for Property Tax Assessment
Attorneys
Building Maintenance - Cleaning
Building Maintenance - Grounds
Building Maintenance - Structures
Bus System Management and Operation
Children's Protective Services
Construction of Public Works
Data Processing
Day Care

Design and Develop Parks
Design of Public Works
Electric Systems
Equipment Maintenance
Fire Protection
Garbage Collection
Gas Systems
Golf Course Maintenance (including pro shop and restaurant)
Halfway Houses
Homemaker Services
Hospital Management
Institutional Care
Meals-on-Wheels
Median Strip Grounds Maintenance
Nursing Care
Paramedic Rescue (ambulance)
Parks Maintenance
Police Protection
Planners
Public Works That are Required To Be Provided by a Developer
Recreation Programs
Sewage Treatment Plant
Sewer Line Maintenance
Sewer System
Street Drainage Maintenance
Street Light Maintenance
Street Ownership by Neighborhood Associations
Street Patching
Swimming Pool Facilities
Tennis Facilities
Traffic Sign Replacement
Utilities Maintenance
Vehicle Maintenance
Vocational Rehabilitation
Water Line Maintenance
Water System
Zoos

While there is little doubt that local government privatization is growing, there is a serious debate as to whether that trend is beneficial. A November 1987 article by Thomas B. Darr in Governing aptly illustrates that point and is excerpted below:

"The anecdotes are endless, and each has its own seemingly unequivocal conclusion. Privatization of public services is either the greatest innovation in government management since Benjamin Franklin's first American fire company or an insidious means of destroying the public work force. For instance:

- *Fairfield, Calif., sought schedule changes and more flexible job descriptions from its unionized firefighters. When negotiations failed, the city of 70,000 northeast of San Francisco contracted for firefighters with a private company. While the new workers only augmented the existing staff, they were willing to work shorter shifts than union members and agreed to perform non-firefighting duties during time spent on neither emergency calls nor training.*

- *Maricopa County, Ariz., contracted with a private firm in 1982 for computer services after a study by the same firm indicated that the county's own computer operation was too expensive. Four years, many problems and millions of dollars later, Maricopa canceled the contract and returned to in-house computer operations, with savings estimated by one county supervisor at more than \$1 million per year.*

Those experiences illustrate one certainty when governments contemplate turning the performance of public services over to the private sector: Nothing about the process is either certain or clear-cut. What works one place or in one circumstance doesn't necessarily work somewhere else. Cost savings can be real or elusive, and problems caused by privatization--including its impact on public employees--can make its achievement as an alternative means of delivering public services difficult..."

"...One study, conducted by Connecticut-based Ecodata Inc. for the U.S. Department of Housing and Urban Development, compared public- and private-sector costs for eight services, including street sweeping,

waste collection and payroll administration, in 20 cities around Los Angeles. Half of the cities contracted out each of the services, while the rest relied on traditional, government-provided public services. The results showed that in seven of the eight areas surveyed, private contractors were able to perform public services an average of 54 percent more cheaply than their public counterparts could. Perhaps more important for those favoring privatization was Ecodata's finding of no essential difference in quality between services provided by contractors and governments..."

"...While contracting out public services clearly can be cheaper in many instances, the revival of privatization is widely criticized on many grounds other than cost.

Public-employee unions probably have the longest lists. The American Federation of State, County and Municipal Employees, for example, publishes at least a half-dozen booklets detailing the drawbacks it sees to contracting out public services. AFSCME asserts that privatization:

- Masks hidden costs to government, including the expenses of contract preparation and monitoring of contractor performance.
- Emphasizes the profit motive, making contracted services neither cheaper than publicly provided services nor of comparable quality.
- Locks public officials into inflexible contracts that prevent responses to unforeseen circumstances.
- Increases opportunities for corruption.
- Diminishes government accountability to citizens..."

We can summarize our literature search by stating that virtually any public service can be contracted out. However, the appropriateness of doing so is dependent not only on the nature of the service but also on the specific local conditions surrounding that particular service. In other words, what

works well for one city may not work for another city. While the issue of privatization is complex, some literature suggests that the chances of using privatization successfully are improved if certain conditions exist. These conditions include the following:

- The product desired can be fully defined in advance,
- The government can choose among several competing agents,
- The product delivered can be evaluated unambiguously,
- Poorly-performing agents can be replaced or otherwise penalized, and
- The costs of poor performance (in any one contract) are small.

OTHER PERTINENT INFORMATION

Ordinance-Required City Manager
Quarterly Reports on Council
Appointee Contracting Not Filed

While performing our study of contracted services, we noted that for over one year, the City Manager had not filed an ordinance-required quarterly report of Council appointee-executed contracts.

San Jose Municipal Code Section 4.04.080 requires the City Manager to file a quarterly report with the City Council summarizing those contracts the City Manager, City Attorney, City Clerk and City Auditor executed in the preceding calendar quarter. The City Attorney, City Clerk, and City Auditor are to provide the City Manager with information on their contract activities for inclusion in the quarterly reports to Council. During the period of our review, the City Clerk and City Auditor did report their contract activities to the City Manager, but the City Attorney did not.

After discussions with audit staff, both the City Manager's and City Attorney's offices committed to filing reports for those periods for which quarterly reports had not been prepared.

Contract Administration Needs Improving

While performing our study of contracted services, we also noted indications of potentially serious City contract administration problems. Some of these problems are described below:

- The existing City Administrative Manual Section 115, "Administration of Contracts, Agreements and Permits," was issued with an effective date of January 1, 1972. Because Section 115 has not been updated since then, it does not reflect current City contracting procedures and practices. For example, a major topic deals with establishing requirements for and verifying the existence of contractor insurance coverage. The City established a risk management function eight years ago and that unit is responsible for verifying that contractors have met insurance requirements. Not only does Section 115 make no mention of risk management, it identifies other City organizations as being responsible for contractor insurance issues. In addition, Section 115 does not mention the City Attorney's Office and the role that office plays in contracting. Finally, Section 115 makes no reference to the Office of Affirmative Action and Contract Compliance and the role they perform in the City's contracting procedures.
- In 1985, OMB drafted an extensive study entitled "Contract Administration Analysis." This draft study contains many recommendations to correct contract administration deficiencies. As of April 1988, OMB has not issued the study or its recommendations.
- In 1987, the City Clerk's Office issued a memo on City contracting which described thirteen "Current Problems Caused By Lack of Standardization." As of April 1988, there does not appear to have been any procedural changes or other action taken as a result of that memo.

Based upon these indications, an expanded scope review of the City's contracting and contract administration activities appears to be in order. Accordingly, the City Auditor will include such a review in his Proposed 1988-89 Audit Workplan.